

Message Text

CONFIDENTIAL

PAGE 01 JAKART 04771 140806Z

ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /097 W
-----141145Z 066442 /15

R 140755Z APR 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 442

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 4771

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: PERTAMINA REVISES OIL INCENTIVES

1. GOI EXPECTED ANNOUNCE IMPORTANT MODIFICATIONS IN PERTAMINA'S
FEBRUARY 11 PACKAGE OF OIL INCENTIVES SHORTLY. LETTER DATED
APR 7 HAS ALREADY BEEN DRAFTED BY PERTAMINA PRESIDENT
HARYONO. NOTIFICATION OF OIL COMPANIES HAS BEEN DELAYED
PENDING FINAL CLEARANCE FROM MINISTER OF NATIONAL ECONOMY
WIDJOJO WHICH REPORTEDLY HAS NOW BEEN OBTAINED.

2. ACCORDING PERTAMINA SOURCES, GOI HAS AGREED RELAX TERMS ON
TWO OF THREE ORIGINAL INCENTIVES. FIRST CHANGE INVOLVES COM-
PANIES' OBLIGATION TO PROVIDE CERTAIN PERCENTAGE CRUDE RESULTING
FROM NEW DISCOVERIES FOR DOMESTIC CONSUMPTION. PREVIOUS IN-
CENTIVE AGREED TO VALUE THIS CRUDE AT FULL MARKET PRICE BUT
TIED PROCEEDS GIVEN BY PERTAMINA TO COMPANIES TO SPENDING FOR
CONTINUED EXPLORATION IN SAME CONTRACT AREA. NEW
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 04771 140806Z

LANGUAGE STATES PROCEEDS SHOULD "PREFERABLY" BE USED
FOR SPENDING IN SAME FIELDS "IF SUCH OPPORTUNITY" EX-
ISTS. IF THIS IS NOT POSSIBLE OR WOULD NOT BE "CONSISTENT
WITH GOOD OIL PRACTICES," THEN CONTRACTOR FREE TO USE
PROCEEDS AT OWN DISCRETION. FIVE YEAR APPLICATION
PERIOD REMAINS UNCHANGED.

3. SECOND MODIFICATION INVOLVES TWENTY PERCENT CAPITAL INVESTMENT CREDIT GIVEN FOR FIRST YEAR OF NEW PRODUCTION FROM HARDSHIP AREAS, I.E. FIELDS LOCATED IN MORE THAN 300 FEET WATER OFFSHORE OR 30 MILES FROM COAST ONSHORE. REVISED LANGUAGE SAYS INVESTMENT CREDIT WILL BE GIVEN NOW FOR NEW PRODUCTION IN DIFFICULT "AS WELL AS NON-DIFFICULT AREAS." CREDIT STILL REMAINS SUBJECT TO TAX, HOWEVER.

4. WHILE NEWS OF THESE CHANGES HAS NOT YET FILTERED OUT INTO OIL PATCH, COMPANY REACTION SHOULD BE FAVORABLE SINCE TWO CHANGES RESPOND DIRECTLY TO COMPANIES' CHIEF COMPLAINTS ABOUT FORMER INCENTIVES. OFFSHORE OPERATORS LIKE ARCO, IIAPCO, UNION WOULD HAVE ALL BEEN DENIED INVESTMENT CRDIT BECAUSE THEY OPERATE IN SHALLOWER WATER DEPTHS. CONOCO, WHICH HAS COMMERCIALY PROMISING BLOCK IN NATUNAS, WAS STYMIED BECAUSE WATER DEPTH THERE WAS 296 FEET. CALTEX SHOULD BE ABLE BENEFIT TOO NOW IN DEVELOPING SMALLER FIELDS IN ITS ONSHORE PRODUCTION SHARING BLOCK ADJACENT TO MINAS. TAXATION OF CREDIT WILL STILL BE IRRITANT TO COMPANIES BUT GOI APPEARS FIRM ON THIS.

5. COMMENT: CHANGES WERE MADE IN OBVIOUS RECOGNITION THAT COMPANIES SIMPLY WERE NOT IMPRESSED BY ORIGINAL FEBRUARY 11 INCENTIVES. REPORTEDLY, PRESIDENT SUHARTO HIMSELF SPARKED MODIFICATIONS AFTER IT HAD BEEN BROUGHT TO HIS ATTENTION THAT INCENTIVES WERE CONSIDERABLY DILUTED BY USE OF VARIOUS QUALIFIERS. GOI ALSO APPARENTLY SOBERED BY FACT THAT COMPANIES WERE NOT CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 04771 140806Z

BLUFFING WHEN THEY SAID INDONESIA WAS FAST BECOMING LESS ATTRACTIVE PLACE FOR SCARCE INVESTMENT CAPITAL VIS-A-VIS OTHER PRODUCING AREAS. AS PRACTICAL MATTER, THESE CHANGES WILL BE OF MOST BENEFIT TO CURRENT PRODUCERS WHO ARE IN BEST POSITION TO BRING NEW OIL OUT OF GROUND. IT IS TOO SOON TO SAY, HOWEVER, WHETHER THESE CHANGES WILL HAVE IMPACT ON REMAINDER OF COMPANIES' 1977 PROGRAMS.
NEWSOM

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, INVESTMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKARTA04771
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770129-0724
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770458/aaaabygj.tel
Line Count: 106
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 762bb2a5-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2809348
Secure: OPEN
Status: NATIVE
Subject: PERTAMINA REVISES OIL INCENTIVES
TAGS: ENRG, EINV, ID, PERTAMINA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/762bb2a5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009